1990 Annual Report

Hershey Foods Corporation

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Hershey Foods Corporation, which includes Hershey Chocolate U.S.A., Hershey Canada Inc., Hershey Refrigerated Products, Hershey International and Hershey Pasta Group, produces a broad line of chocolate, confectionery, pasta and other food products.

Hershey Chocolate U.S.A.'s principal brands include *Hershey's, Reese's, Y&S, Luden's* and *Peter Paul.*

Hershey Canada's major brands, in addition to *Hershey, Reese* and *Y&S,* include *Glosette, Life Savers, Moirs, Oh Henry!* and *Planters.*

Hershey International's business consists primarily of export sales of chocolate and confectionery products manufactured by Hershey Chocolate U.S.A., and joint venture operations in foreign countries.

Hershey Pasta Group produces nine regional brands: *American Beauty, Delmonico, Light 'N Fluffy, P&R, Pastamania, Perfection, Ronzoni, San Giorgio* and *Skinner.* Distributed throughout the continental U.S., with the exception of portions of New England, the Division's major brands are recognized leaders in their individual regions.

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1990

FINANCIAL HIGHLIGHTS

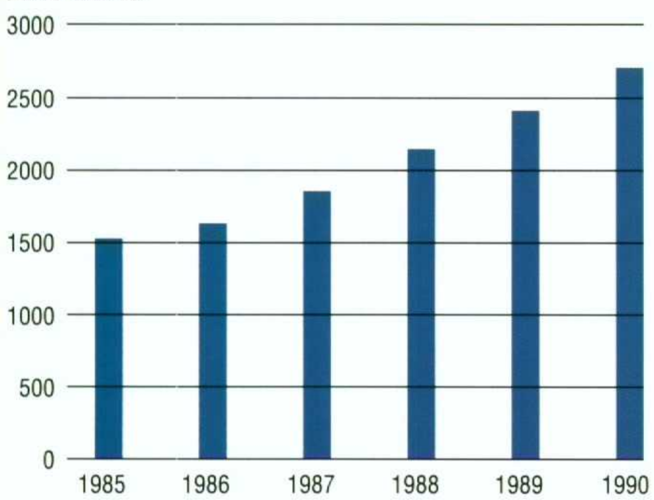
(in thousands of dollars except shares and per share amounts)	**1990**	1989	Percent Change
Net sales	**$2,715,609**	$2,420,988	+12
Net income	**215,882[a]**	171,054	+26
Net income per share[b]	**2.39[a]**	1.90	+26
Cash dividends paid per share:			
Common Stock — Regular	**.840**	.740	+14
Common Stock — Special	**.150**	—	—
Class B Common Stock — Regular	**.755**	.665	+14
Class B Common Stock — Special	**.135**	—	—
Total cash dividends paid	**87,757**	65,592	+34
Capital additions	**179,408**	162,032	+11
Stockholders' equity at year-end	**1,243,537**	1,117,050	+11
Net book value per share at year-end	**13.79**	12.39	+11
Price per share of Common Stock at year-end	**37½**	35⅞	+5
Outstanding shares at year-end[b]	**90,186,336**	90,186,336	—

[a] Net income and net income per share for 1990 include a $20.3 million ($.22 per share) after-tax Gain on Business Restructuring, Net. This gain resulted from two events, the sale of the Corporation's equity interest in AB Marabou and a manufacturing restructuring charge. Excluding the impact of this gain, net income and net income per share would have been $195.6 million and $2.17, respectively, or 14% higher than the prior year.

[b] Total shares of 90,186,336 were outstanding throughout the two-year period and, as of December 31, 1990, consisted of 74,909,932 shares of Common Stock and 15,276,404 shares of Class B Common Stock. Net income per share is based on weighted average outstanding shares of 90,186,336 for 1990 and 1989.

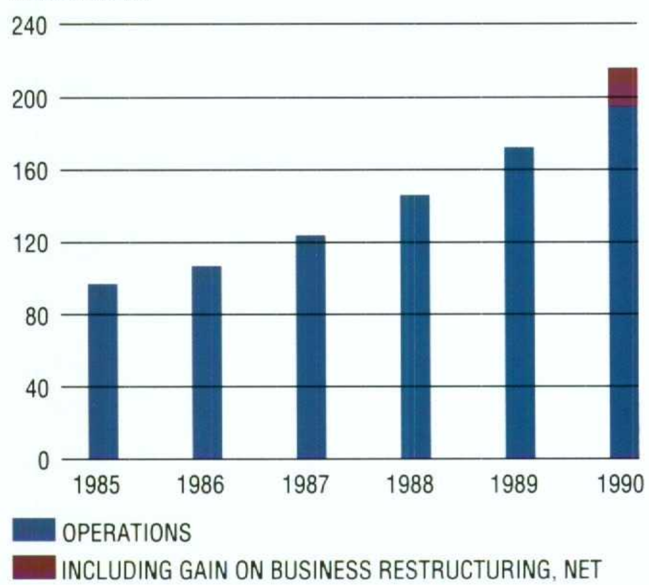
NET SALES

(dollars in millions)



INCOME FROM CONTINUING OPERATIONS

(dollars in millions)



Letter to Stockholders

Steady progress and consistent improvement in all areas of our business best characterize the year 1990. Your Corporation also continued to invest for future growth. The year continued our emphasis on confectionery, for this business has represented the heart of your Corporation since it was founded by Milton S. Hershey.

The year also saw increased emphasis on new branded consumer food products which build on the strength of Hershey's quality image, distribution capabilities, and unique and powerful brand names.

Financially, the year was highly successful. The basic businesses produced earnings significantly higher than the previous year. These earnings were enhanced by the net result of two special events — the sale of our AB Marabou stock, resulting in a gain of $.39 per share, and a restructuring charge, which resulted in reduced income of $.17 per share.

Our earnings of $2.39 per share on net sales of $2,715,609,000 represented record annual performance. Of the $2.39 per share, $.22 came as the net result of the aforementioned non-recurring items — the sale of Marabou shares and the manufacturing restructuring charge. Excluding these items, the Corporation realized increased earnings of 14 percent on a sales increase of 12 percent when compared with 1989.

Each operating division — Hershey Chocolate U.S.A., Hershey Pasta Group, Hershey Canada Inc. and Hershey International — posted excellent results. Our largest division, Hershey Chocolate U.S.A., was especially effective with the introduction of new products, while it continued to achieve real sales growth and enhanced market share in most product categories.

Hershey Canada improved its net sales and operating profits for the year, making significant productivity strides. The full potential of this Division has not yet been realized, but changes in management and operating philosophy are beginning to take effect.

Hershey Pasta Group and the grocery products unit of Hershey Chocolate U.S.A. continued their mission of bringing high quality, branded, consumer food products to our domestic markets and to certain foreign markets through Hershey International. Ronzoni Foods Corporation was successfully assimilated into Hershey Pasta Group, which achieved record sales levels and production volume as its national brand share improved to 25 percent.

In addition to the acquisition of the *Ronzoni* brand, the Corporation introduced several branded consumer food products which were developed internally. For example, *Hershey's* chocolate drink in an aseptic package achieved excellent results for Hershey Chocolate U.S.A. during the year.

Our first full year of marketing and manufacturing *Hershey's* chocolate bar flavor puddings was indeed a success. Especially pleasing is our ability to capture and hold market share in an intensely competitive arena.

The most successful new product introduction in 1990 was *Hershey's Kisses With Almonds* chocolates. The product has dramatically increased the total *Hershey's Kisses* chocolates sales volume.

The integration of the *Peter Paul/Cadbury* brands into Hershey Chocolate U.S.A. continued in 1990 and resulted in nearly full realization of anticipated operating efficiencies, well ahead of our expectations.

The year 1990 was one of heavy competition, with many new U.S. products making their debut. The American consumer has the widest variety of choice ever, and every established brand must fight to retain its customer base. Investment in marketing expenditures continues to escalate to support our brands and is essential to the improvement of our share position in this highly competitive environment.

Despite increased competition, however, Hershey's top five sellers — *Hershey's Kisses* (with and without almonds), *Hershey's* milk chocolate bar with almonds, *Hershey's* milk chocolate bar, *Reese's* peanut butter cups and *Kit Kat* wafer bar — strengthened their collective market position.

Richard A. Zimmerman (standing), Chairman of the Board and Chief Executive Officer, and Kenneth L. Wolfe, President and Chief Operating Officer.

The Corporation's major candy bar lines had been sold to our customers for the same price since 1986. Unfortunately, general business conditions and certain higher ingredient costs — notably, peanuts — forced an increase in chocolate bar prices for the first time in five years on February 4, 1991.

The Corporation's capital requirements continue to be heavy. A more efficient chocolate processing facility in Hershey, Pa., is emerging from the ground, and the new office facilities will be ready on schedule during 1991.

The capital demands, however, have not prevented us from providing increased dividends to our stockholders. In 1990, the quarterly dividend on the Corporation's Common Stock was increased for the 16th consecutive year to $.225 per share, 15 percent above the previous quarterly dividend rate. A special dividend on Common Stock of $.15 per share also was paid in September 1990 in recognition of the gain on the sale of the Marabou stock.

A remarkably consistent contributor to the net earnings of the Corporation continues to be our productivity improvement program. The involvement of employees at all levels of the Corporation in achieving quality and productivity goals, coupled with a desire to meet our customers' needs, have proven essential to our profitable growth. In 1990, our divisions won supplier awards from Wal-Mart, McCrory, Target Stores and Fleming Companies. A company's name or reputation does not ensure such awards; they are won by employees who know that ***their*** future and the ***Corporation's*** future are dependent upon the ability to provide high quality products and service.

It would not be possible for the Corporation to continue its record of profitable growth without the outstanding efforts of our employees. We take particular satisfaction in acknowledging and thanking them for their superior work.

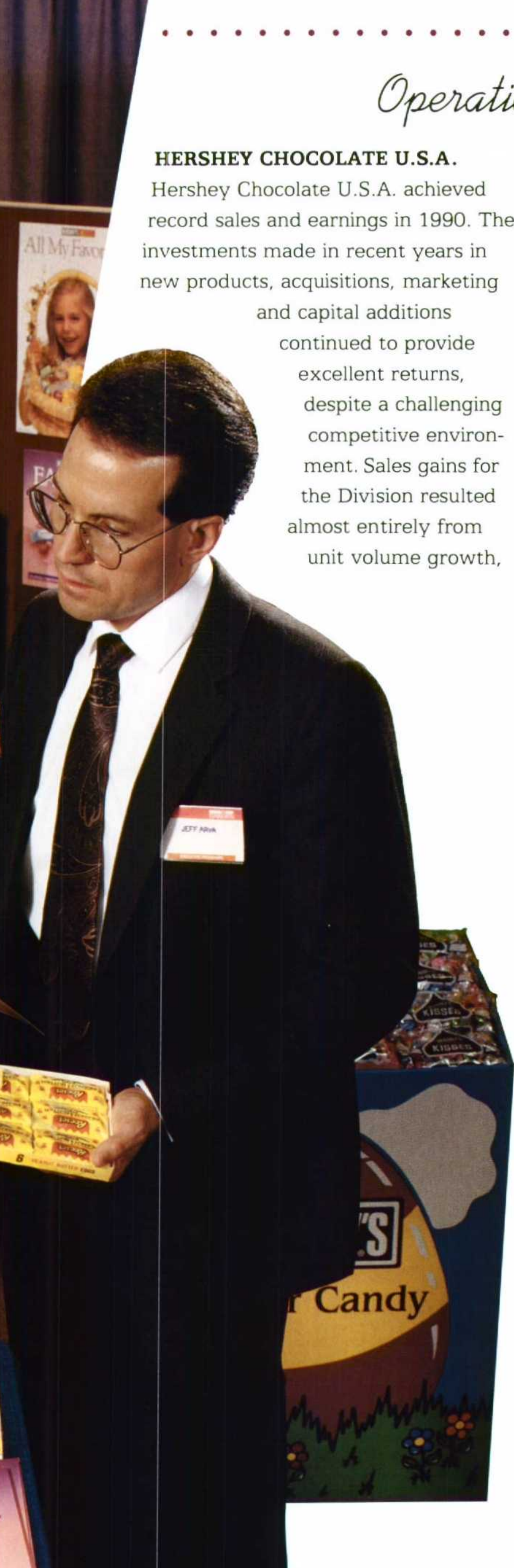
Richard A. Zimmerman
Chairman of the Board and
Chief Executive Officer

Kenneth L. Wolfe
President and Chief
Operating Officer

Hershey Chocolate U.S.A. participates in chocolate and confectionery trade shows as a means of displaying an extensive variety of packaging and promotional materials designed to increase sales for retailers. Here, Sales Department employees Linda Bingaman and Walt Glockner (center) discuss seasonal programs with a retailer. In 1990, the Division completed its Easter promotion season with record sales.

Service to the Trade

Operations Review



HERSHEY CHOCOLATE U.S.A.

Hershey Chocolate U.S.A. achieved record sales and earnings in 1990. The investments made in recent years in new products, acquisitions, marketing and capital additions continued to provide excellent returns, despite a challenging competitive environment. Sales gains for the Division resulted almost entirely from unit volume growth, coming from both established brands and new products.

Established brands which contributed to the Division's growth in 1990 included *Reese's* peanut butter cups, *Hershey's Miniatures* chocolate bars, *Reese's* peanut butter eggs, *York* peppermint pattie, *Hershey's* syrup, *Y&S Twizzlers* candy, *Whatchamacallit* candy bar and *Kit Kat* wafer bar.

New products continued to provide significant impetus to Hershey Chocolate U.S.A.'s sales. *Hershey's Kisses With Almonds* chocolates, first shipped in August, became the Corporation's single most successful new product introduction. This marked the first extension of the *Hershey's Kisses* chocolates line since its introduction in 1907.

Symphony, the Division's smoothest and creamiest milk chocolate bar, completed its first full year in national distribution at the end of July with excellent results. Offered in two flavors, milk chocolate and milk chocolate with almonds and toffee chips, *Symphony* is a major new brand in the Division's product line.

Caramello candy bar is a brand Hershey Foods acquired when it purchased the Peter Paul/Cadbury U.S. confectionery operations in 1988. While previously available in approximately half of the United States, the product was placed in national distribution in January 1990. The objective of broadening the brand's market base by expanding distribution and marketing support was successfully achieved.

Hershey's genuine chocolate flavored drink, sold in aseptic packaging, was expanded into national distribution in January 1990 after a successful year in test market. This product is an example of the

Division's efforts to enter new product categories by building on consumers' strong association between the words "*Hershey's*" and "chocolate."

Hershey Chocolate U.S.A. introduced *Hershey's Chocolate Shoppe* toppings nationally in March 1990. Available in two flavors, Hot Fudge and Double Chocolate Fudge, the new toppings are sold in 18.5-ounce wide-mouth, collectible glass jars similar to those found in an old-fashioned ice cream parlor. Consumer acceptance has been excellent.

A successful confectionery business requires a highly professional sales effort. Broad distribution is critical to efficient introduction of a new brand and to ensure continued success of established brands. Hershey Chocolate U.S.A.'s sales force has built upon the Corporation's reputation for quality and value to gain excellent distribution in nearly 1.5 million retail outlets throughout the country.

The confectionery business also depends on repeat purchases, and this means Hershey Chocolate U.S.A. must satisfy consumers' expectations every time they purchase its products. To ensure the highest quality products, Hershey Chocolate U.S.A.'s quality assurance process begins with raw material procurement, serves as the cornerstone for manufacturing practices, and extends through the distribution system to customers' shelves and through the Division's marketing programs to the consumer.

As the Division continues to meet competition head-on, relationships with customers assume even greater importance. Customer relations efforts are unceasing, and all Division personnel take pride in the fact that Hershey Chocolate U.S.A. garnered awards in 1990 from Wal-Mart Stores, Inc.; McCrory Stores, Inc.; and Target Stores, Inc., for being a top quality supplier. These awards highlight the close partnership which must exist between supplier and retailer to provide the consumer with the best possible value.

The Division's record earnings were achieved as a result of higher sales, generally lower commodity costs, manufacturing efficiencies associated with higher unit volumes, and productivity gains.

While established brands and new products contributed to the Division's sales gain, new products require substantial marketing expenditures to achieve trial usage by the consumer. Given the high expenditure levels required for new product introductions, the Division

Hershey Foods recognizes that employees remain the key to its future success and provides a comprehensive program of training, development and other employee-oriented opportunities for its workforce. Here, Office of the Corporate Secretary employees Andrea Bowerman (standing) and Barbara Manning review continuing education alternatives.

Service to Employees

makes every effort to funnel its new products through an appropriate series of tests to ensure successful introductions.

The new products program seeks to capitalize on Hershey Chocolate U.S.A.'s strengths, including its brand names, its reputation for quality and value both with customers and consumers, and its broad-based distribution network. New products are essential to the health and vitality of the Division's business.

During the past year, the Division continued to make substantial capital investments in equipment and facilities modernization. In October 1990, ground was broken in Hershey, Pa., for a major new chocolate-processing facility. The 130,000-square-foot facility will process chocolate to be used primarily by the main Hershey plant to manufacture confectionery products. The new facility's state-of-the-art production systems will replace older systems currently located in the main Hershey plant. Additionally, new technology was developed and new lines were designed and installed to manufacture *Hershey's Kisses With Almonds*. Other major projects during 1990 focused on modernization and expansion of production capacity for *Reese's* peanut butter cups, the Division's leading brand.

Significant gains have been realized by the Division through an intensive productivity effort on the part of all employees.

Entitled "Quality Through Excellence," this process distinguishes itself from other productivity programs by focusing on fulfilling the needs of both internal and external customers. Since its inception in 1986, the process has not only generated major cost savings, but also has been instrumental in increasing employee involvement and commitment.

Lower cocoa bean costs, productivity savings and manufacturing efficiencies realized in 1990 and prior years had enabled the Division to avoid increasing prices on its standard bar line for over five years. However, recently, these cost savings have not kept pace with the rising costs of certain raw materials, especially peanuts, petroleum-based packaging materials, fuel and employee benefits. Consequently, on February 4, 1991, the Division implemented a price increase on its standard bar line and certain other pack-types. The last price increase for standard bars took place in January 1986. The Division continuously strives to provide maximum consumer value, while maintaining an appropriate level of long-term investment and providing a fair return to the Corporation's stockholders.

The growth of the Division's established and acquired brands, successful new products, productivity improvements, and an increased focus on customer relationships all contributed to an outstanding year. Hershey Chocolate U.S.A. is committed to continuing this successful record in 1991 and to providing its consumers with products of superior value and quality for many years to come.

HERSHEY CANADA INC.

In 1990, Hershey Canada Inc. recorded a marked improvement in its operating performance in the form of increases in sales, operating income and overall profitability.

Reese Peanut Butter Cups candy had an exceptional year in 1990, and *Oh Henry!* and *Glosette* candy also made significant contributions. *Y&S* licorice, led by *Nibs* and *Twizzlers,* made excellent sales progress, and the *Moirs* boxed chocolates business was paced by a strong performance from *Pot of Gold.* The *Life Savers* candy business was buoyed by excellent results from *Breath Savers* mints, and *Brown Cow* chocolate syrup improved its market position in the Canadian liquid milk modifier category.

Market share improved year to year in the chocolate bar, shelled nuts, hard roll candy and boxed chocolate categories, with renewed commitment to advertising and consumer programs.

While profitability improved in 1990 compared with 1989, manufacturing effectiveness continued to be a concern as Hershey Canada entered the final phase of its manufacturing consolidation which began several years ago. To help focus the Corporation's resources on the improvement of manufacturing costs, a North American manufacturing strategy was announced in late 1990. Under this strategy, the responsibility for Hershey Canada's manufacturing operations was combined with that of Hershey Chocolate U.S.A. to more effectively utilize the extensive resources of the U.S. confectionery division. The goals of this initiative are to modernize the Canadian manufacturing operation, to capitalize on synergies in producing like items, and to provide manufacturing flexibility across North America.

The introduction of the "Smartwork" program which focuses employees' attention on quality and productivity improvement began in 1990 as a vehicle to introduce the Corporation's "Quality Through Excellence" concept at Hershey Canada. Combined with the successful reorganization of the Canadian business into a

Service to Consumers

Hershey Foods' consumer relations program plays an important role in keeping the Corporation in tune with what consumers want and expect from Hershey's products. Here, a consumer uses Hershey's toll-free 800-telephone number to ask questions before preparing a recipe. Callers receive an immediate response.

In 1990, Hershey Chocolate U.S.A. was named "Vendor of the Year" by Wal-Mart Stores, Inc., one of the nation's largest retailers, for its outstanding customer service program. Here, Chris Ketterer (center) and Karen Bertolino of Hershey Chocolate U.S.A.'s Sales Department confer with a Wal-Mart candy manager. The Division also received "top vendor" honors from Target Stores, Inc., and McCrory Stores, Inc.

Service to Customers

Hershey Pasta Group received "1990 Vendor of the Year" honors from the Fleming Companies, the Division's largest private label account. Here, warehouse employee Milan Vracarich prepares product for shipment from the Lebanon, Pa., pasta distribution center.

more efficient structure, the productivity improvement efforts are designed to foster a higher level of morale and team spirit while providing the necessary resources to support Hershey Canada's major brands in this highly competitive marketplace.

Overall, 1990 was a year of solid accomplishment for Hershey Canada. The Division achieved growth in consumer sales and market share, began to meet the challenge of enhancing efficiency, and developed a strategy for future manufacturing improvement.

Confectionery sales in Canada should benefit from the January 1, 1991, switch from a federal sales tax of 13.5 percent on confectionery and snack nut products to a broader goods and services tax of 7.0 percent. By spreading the burden over a broader array of products and services, the playing field is leveled for Hershey Canada's product line in relation to competing snack food lines.

Continued investment in consumer marketing programs, particularly in advertising established brands, is critical to Hershey Canada's success in the highly competitive Canadian market. Reduced manufacturing costs and productivity gains are an essential means of funding these programs and achieving continuous improvement in the Division's operating results.

HERSHEY REFRIGERATED PRODUCTS

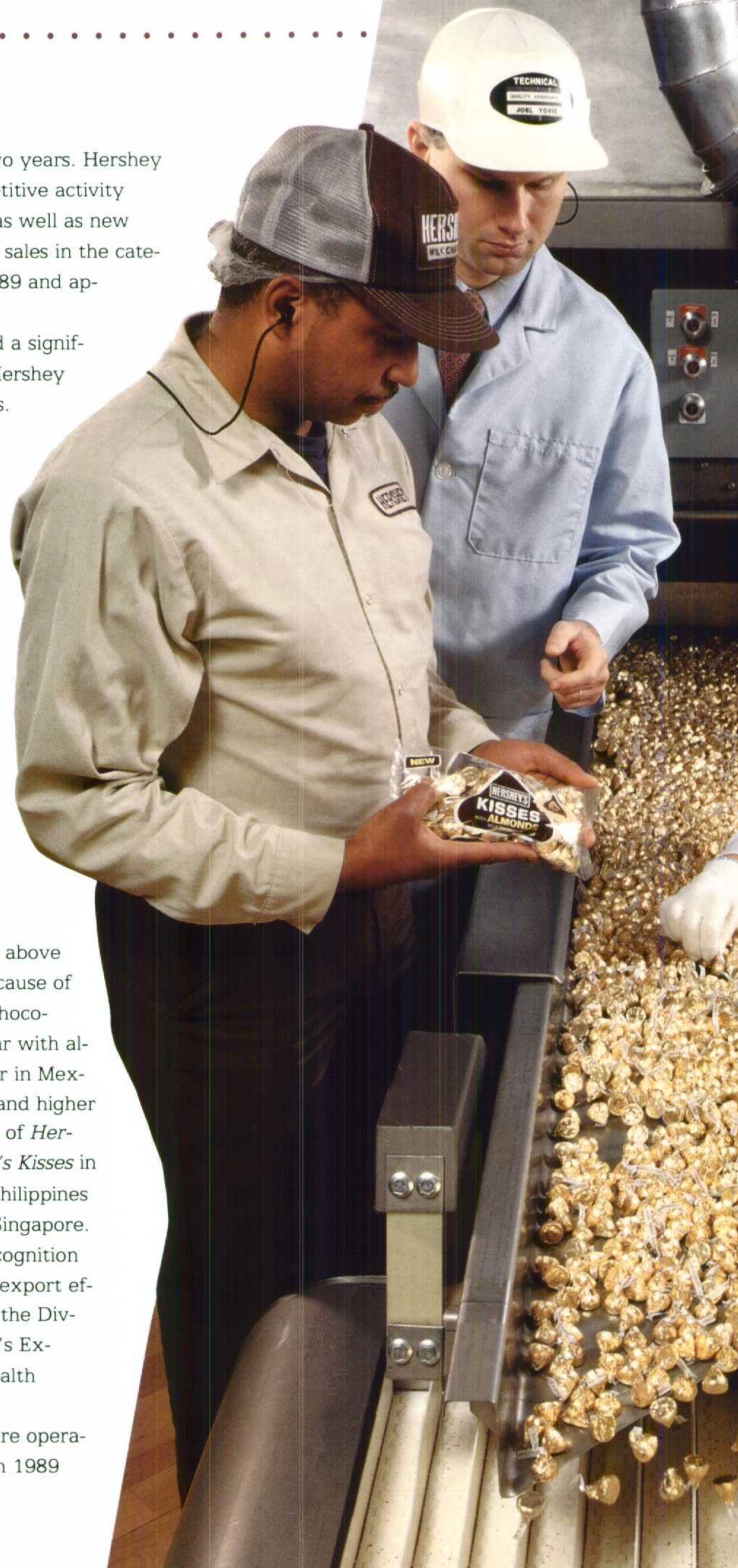
Hershey's chocolate bar flavor puddings achieved sales objectives and significant market share in 1990 in a fiercely competitive environment.

Refrigerated *Hershey's* puddings were introduced in December 1989 to selected East Coast markets and in January 1990 to selected West Coast markets. Distribution was expanded during the year to include the Middle Atlantic Region. By year-end, the product line was available in 60 percent of the United States. Distribution of the puddings, through a network of refrigerated food brokers supervised by a Hershey sales team, has been successful. Expanded distribution is planned for 1991.

Sold in four flavors, *Hershey's* chocolate, *Hershey's* chocolate & almond, *Hershey's Kisses* chocolate & vanilla, and *York* peppermint pattie, the brand has achieved exceptionally high consumer acceptance.

A significant investment in capital and marketing programs has been required to introduce the *Hershey's* brand in this rapidly growing product category. Hershey Foods' 1990 programs reflected further progress in establishing the Corporation as a significant player in the refrigerated/perishable grocery business.

The refrigerated puddings category has shown



excellent growth over the past two years. Hershey Foods' entry has increased competitive activity bringing increased consumption, as well as new consumers to the category. Retail sales in the category exceeded $200 million in 1989 and approached $300 million in 1990.

Entry into this category marked a significant departure from traditional Hershey Foods' confectionery product lines. The move was predicated on the Corporation's reputation for producing and selling quality chocolate products. Marketing support for the new product line focuses on promoting America's favorite name in chocolate as America's favorite name in refrigerated pudding.

HERSHEY INTERNATIONAL

Hershey International had another outstanding year in 1990, led by healthy increases in export sales volume and export earnings.

Export sales were substantially above last year's levels, in large part because of higher sales of *Hershey's Kisses* chocolates, *Hershey's* milk chocolate bar with almonds and *Almond Joy* candy bar in Mexico, and higher sales of *Hershey's Kisses* in the Philippines and Singapore. In recognition of its export efforts, the Division received the 1990 Governor's Export Award from the Commonwealth of Pennsylvania.

Equity income from joint venture operations was somewhat lower than in 1989

Service Among Employees

Hershey Foods' quality service focus emphasizes teamwork and productivity. This especially was evident in the creation of *Hershey's Kisses With Almonds* chocolates — an intensive development effort which, in 1990, culminated in the most successful new product introduction in the Corporation's history. Here, Hershey Plant employees Lang Lewis (left) and Joel Yovic discuss packaging while Ellanora Wolfe inspects product.

due to difficult business conditions in Brazil which hampered the activities of Petybon, S.A., the Corporation's Brazilian joint venture. In addition, the Corporation sold its shares of AB Marabou for $78.0 million in May 1990. The transaction resulted in a one-time, after-tax gain of $35.3 million.

During 1990, Hershey Japan Co., Ltd., the Corporation's joint venture with Fujiya Co., Ltd. of Tokyo, continued market research to determine which Hershey products best suit the Japanese confectionery market.

In March 1990, the Corporation signed a licensing agreement with Japan's largest dairy products company, Snow Brand Milk Products Co., Ltd. Snow Brand has been licensed to use the *Hershey's* trademark on all products in the cocoa-based ice cream and beverage categories. During the year, *Hershey's* chocolate drink; *Hershey's* chocolate monaka, an ice cream product; and *Hershey's* chocolate ice milk bar were successfully launched by Snow Brand in Japan.

The Corporation's joint venture in Mexico, Nacional de Dulces S.A. de C.V., exceeded income expectations as a result of significantly higher sales volume for its locally-produced, *Hershey*-branded confectionery products and substantially higher sales of imported Hershey's products. A capital investment program has been undertaken to increase the capacity and efficiency of the joint venture's plant in Guadalajara.

Philippine Cocoa Corporation, Hershey Foods' joint venture in the Philippines, emphasized commodity exports during 1990 while its branded products manufacturing facilities were undergoing renovation. Nonetheless, its equity income contribution exceeded last year's level.

HERSHEY PASTA GROUP

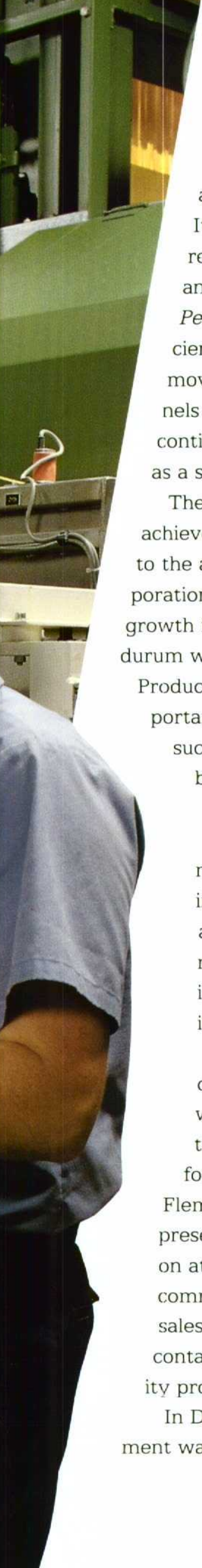
Hershey Pasta Group had an exceptional year in 1990, achieving record sales and earnings. Volume gains were especially strong in the *San Giorgio, American Beauty, P&R* and *Light 'N Fluffy* brands. Private label, food service and industrial segments also posted sales increases over the prior year.

During 1990, Hershey Pasta Group completed the acquisition of Ronzoni Foods Corporation. *Ronzoni* is the leading brand in the metropolitan New York area, the largest pasta consumption area in the United States. It also is a leading brand in Florida and in several western states. Integration of this business was executed as planned and results to date have been in line with expectations.

If there was a disappointment in 1990, it was the reluctance of consumers to try *Perfection* microwave

Service Among Employees

The quality service focus extends to all divisions of Hershey Foods, encouraging employee involvement in decision-making processes. Here, Hershey Pasta Group (Lebanon, Pa., Plant) employees Mike Hentz (left), Cutting Department, and Dave Weidler, Long Goods Manufacturing, discuss the critically important pasta drying process.



pasta. *Perfection* had all the attributes of a successful product. It focused on consumer needs and received excellent trade acceptance and shelf placement. Unfortunately, *Perfection* was unable to attract sufficient consumer trial and was removed from normal distribution channels late in the year. The product will continue to be marketed to consumers as a specialty item.

The Division's record earnings were achieved as a result of higher sales due to the acquisition of Ronzoni Foods Corporation in February 1990, as well as growth in established brands, lower durum wheat costs and productivity gains. Productivity gains continued to be an important part of Hershey Pasta Group's success in 1990. These gains have been made through the Division's "Excellence Through Quality Service" program, which seeks to meet the needs of customers while increasing employee involvement and reducing waste, and through making capital investments which increase production capacity and improve operating efficiency.

In August 1990, the Division's commitment to customer service was recognized when it received the "Vendor of the Year" award for private label brands from the Fleming Companies. This award is presented annually to a vendor based on attributes such as professionalism, commitment to merchandising and sales excellence, and attention to cost containment, while bringing high quality products to the consumer.

In December 1990, a definitive agreement was completed to purchase American

Italian Pasta Company. The transaction is currently being reviewed by the U.S. Department of Justice. American Italian Pasta Company operates a state-of-the-art pasta manufacturing facility in Excelsior Springs, Mo. The purchase supports the Division's strategic goal of plant modernization and improved production efficiency, and also provides needed capacity for its growing business.

The popularity of pasta has increased steadily in the past decade. Per capita consumption has grown from 12.8 pounds per person in 1980 to 18.4 pounds per person in 1990. This growth shows no signs of slowing down in the years ahead. Hershey Pasta Group is well-positioned to be a major part of this growth.

The Division's record performance in 1990 was attributable to sales growth from both acquired and established brands, productivity improvements and the unceasing dedication of its employees. The accomplishments of the past year provide a solid foundation for the Division to strengthen its competitive position in 1991 through continued market share gains and expansion.

As Hershey Pasta Group meets the challenges of 1991 it will continue its basic commitment to customer service and to providing high-quality products of exceptional value for consumers. ■

Hershey Foods is a major corporate contributor to the Children's Miracle Network, which raises funds for children's hospitals nationwide. In 1989-90, Hershey employee Marthajane Rita led a successful campaign drive which fulfilled a five-year, $250,000 pledge by employees in only two years.

Service to Society

Social Responsibility

Milton S. Hershey, the founder of Hershey Foods, was committed to the highest standards of quality, honesty, fairness, integrity and respect. He practiced these principles during his lifetime and set the example by which the Corporation is guided. While the Corporation has changed tremendously over the years, Mr. Hershey's beliefs have not been compromised. They have been reinforced.

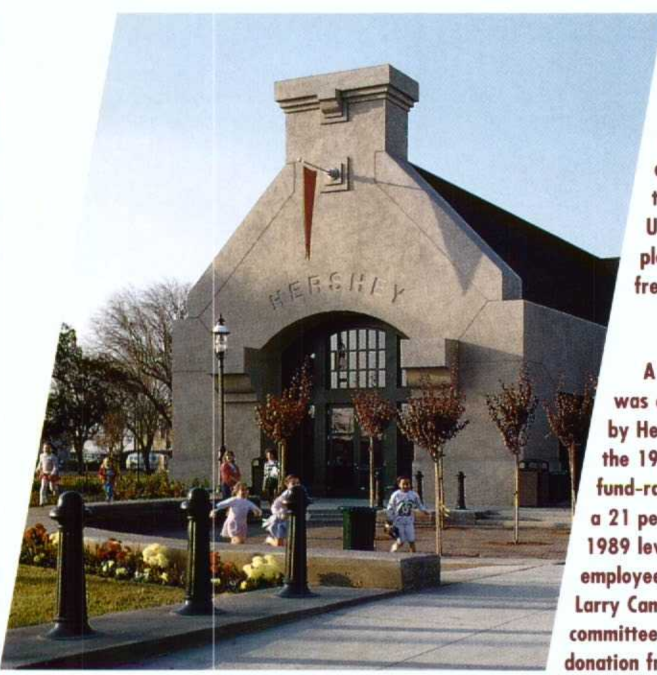
Today, Hershey Foods remains committed to making significant contributions to the communities in which it operates and to society in general. In 1990, the Corporation contributed more than $6 million worth of cash, products and services to a variety of national organizations of particular interest to the Corporation, as well as to local charitable organizations in areas where the Corporation's employees live and work.

Hershey believes that it has an inherent responsibility to be a good neighbor and responsible corporate citizen. It is corporate policy to make voluntary contributions in support of worthy educational, health, human service, civic, and arts and cultural organizations. Employees also are encouraged to take an active part in improving the quality of community life.

The contributions that Hershey Foods makes to recognized health and human service agencies include the United Way, hospitals, and organizations serving youth, minority and disadvantaged groups in areas where the Corporation has significant operations.

This commitment to youth springs from Mr. Hershey's concern for the education and well-being of young people and his founding of Milton Hershey School, in Hershey, Pa., a residential school for socially disadvantaged children. A major example of Hershey Foods' commitment to youth is its sole sponsorship of *Hershey's* National Track & Field Youth Program. Through this program more than 350,000 children in more than 2,900 U.S. communities were introduced to, or made more conscious of, physical fitness in 1990. Concern for young people also is expressed in Hershey Foods' corporate sponsorship of the Children's Miracle Network, a national program benefiting children's hospitals across the U.S.

The Corporation remains committed to its founder's belief that success is measured not only in terms of dollars but in terms of the benefit provided to others. Hershey Foods continues Mr. Hershey's legacy of service to society. ■



◂ The 1990 opening of Hershey's Visitors Center in Oakdale, Calif., played an important role in the community's downtown business development efforts. Oakdale is the site of Hershey Chocolate U.S.A.'s western manufacturing plant, where visitors can take a free walk-through tour.

A record-setting $570,000 ▸ was contributed to United Way by Hershey Foods' employees in the 1990 company-wide fund-raising effort, representing a 21 percent increase over the 1989 level. Here (right), employees Stacy Orwan and Larry Campbell, campaign committee members, accept a donation from Scott Wheeler.

Summary of Consolidated Operating Results
The Corporation realized strong sales and earnings growth in 1990 and 1989. Net sales during this period increased at a compound annual rate of 12%, primarily reflecting unit volume growth from business acquisitions, new product introductions and existing brands. Income from continuing operations, excluding the effect of a net gain on business restructuring, increased at a compound annual rate of 16% due to growth in sales and an improved gross profit margin, partially offset by higher levels of selling, marketing and administrative expenses.

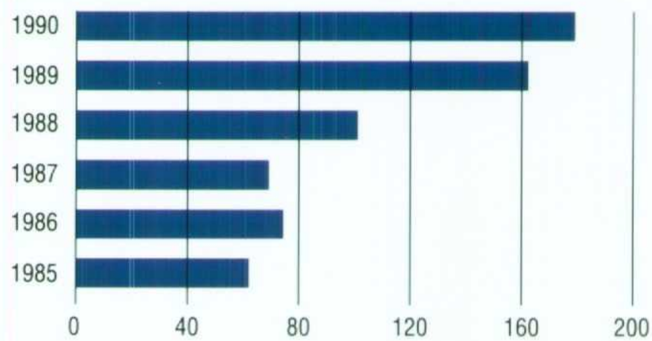
Summary of Financial Position and Liquidity
The Corporation's financial position remained solid during 1990. The ratio of current assets to current liabilities was 1.9 : 1 as of December 31, 1990 and 2.0 : 1 as of December 31, 1989. The Corporation's capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 19% as of December 31, 1990 and 17% as of December 31, 1989.

During 1990, the Corporation's cash and cash equivalents decreased by $25.8 million. Cash provided from operations, long-term borrowings and cash and cash equivalents at the beginning of the period were used primarily to finance capital additions, pay regular cash dividends and meet scheduled repayments of debt.

Proceeds from the sale of the Corporation's equity interest in AB Marabou (Marabou) were used to reduce working capital-related borrowings, partially repay debt resulting from the acquisition of Ronzoni Foods Corporation (Ronzoni) and pay a one-time special dividend.

During the three-year period ended December 31, 1990, the Corporation's cash and cash equivalents increased by $18.9 million. Total debt decreased by $12.8 million, due in part to repayment of $50.0 million of notes as they matured in 1989. During this period the Corporation also invested heavily in business acquisitions and capital additions.

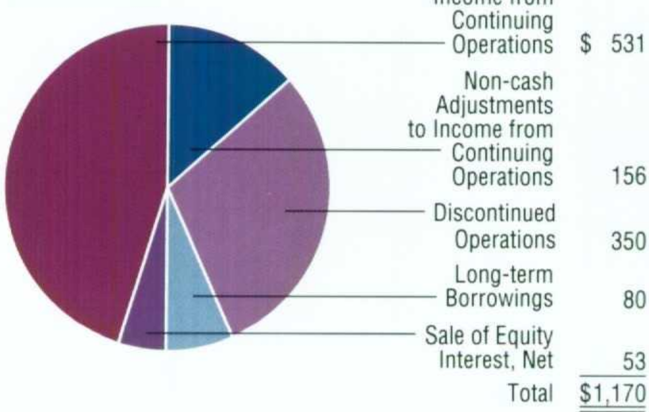
CAPITAL ADDITIONS
(dollars in millions)



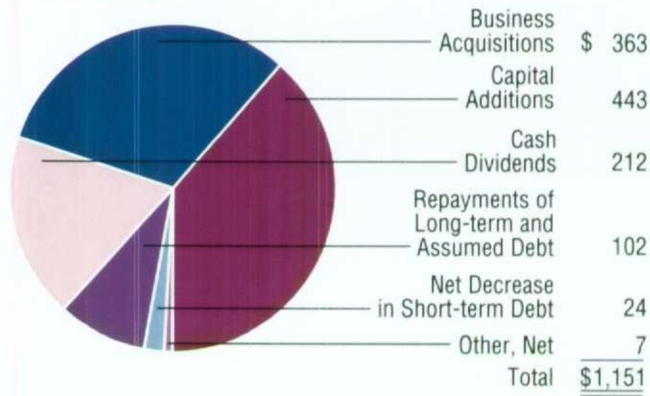
In October 1990, the Corporation began construction of a modern chocolate-processing facility in Hershey, Pa., which is expected to cost in excess of $100 million. As of December 31, 1990, the Corporation's principal capital commitments included manufacturing capacity expansion and modernization, construction of new Corporate headquarters and data processing facilities, and the acquisition of American Italian Pasta Company (AIPC) discussed below.

The Corporation anticipates significant capital additions during the next several years as a result of modernization of existing facilities and the

PRINCIPAL SOURCES OF CASH 1988 – 1990
(dollars in millions)



PRINCIPAL USES OF CASH 1988 – 1990
(dollars in millions)



installation of new manufacturing equipment, as well as construction of the new facilities referred to above. The Corporation expects that funds generated from operations may need to be supplemented to meet these future capital requirements and to fund acquisitions which may be made by the Corporation. To this end, the Corporation filed a Form S-3 Registration Statement, which was declared effective in June 1990. Under this Registration Statement, the Corporation may offer, on a delayed or continuous basis, up to $200 million of debt securities. In February 1991, the Corporation issued $100 million of 8.8% Debentures due 2021 (Debentures) under the Registration Statement. A portion of the proceeds from issuance of the Debentures is to be used to repay $76.7 million of domestic commercial paper borrowings outstanding as of December 31, 1990.

During 1990, the Corporation announced a share repurchase program to acquire, from time to time in the open market or through privately negotiated transactions, approximately 1.4 million shares of the Corporation's outstanding Common Stock. The Corporation expects to use the repurchased shares to satisfy future employee benefit obligations. Accordingly, the .4 million shares which had been repurchased as of December 31, 1990, were classified as other assets.

Acquisitions and Divestitures

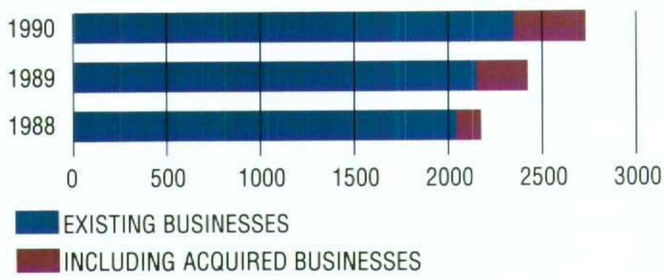
Operating results during the period were impacted by the following acquisitions:

- February 1990 — Acquired from Kraft General Foods, Inc. all of the outstanding voting securities of Ronzoni. The purchase included Ronzoni's dry pasta, pasta sauces and cheese businesses.
- August 1988 — Acquired from Cadbury Schweppes Inc. and Cadbury Schweppes plc (Cadbury) the operating assets of Cadbury's U.S. confectionery business (Peter Paul/Cadbury) and entered into trademark and technology license agreements under which the Corporation manufactures and/or markets and distributes Cadbury's confectionery brands in the United States. The Corporation also has the right to manufacture, market and distribute certain brands outside of the United States.

A further discussion of these acquisitions can be found in Note 2 to the consolidated financial statements.

CONTRIBUTION TO NET SALES OF BUSINESSES ACQUIRED 1988 – 1990

(dollars in millions)



In December 1990, the Corporation announced it had completed a definitive agreement to purchase AIPC. AIPC manufactures pasta, principally for food service and private label customers. Its single plant, in Excelsior Springs, Missouri, is a modern, state-of-the-art pasta manufacturing facility. The transaction is currently under review by the Department of Justice. The acquisition will not have a material effect on the Corporation's net sales and net income.

In September 1988, the Corporation sold all of the issued and outstanding capital stock of Friendly Ice Cream Corporation (Friendly). A further discussion of the sale of Friendly can be found in Note 3 to the consolidated financial statements.

Other Items

Effective February 4, 1991, Hershey Chocolate U.S.A. increased the wholesale price of standard bars and certain other pack-types by approximately 12½%. This increase is intended to cover the rising costs of certain raw materials, especially peanuts, petroleum-based packaging materials, fuel and employee benefits. The last price increase for standard bars was effective in January 1986.

The most significant raw material used in the production of the Corporation's chocolate and confectionery products is cocoa beans. Generally, the Corporation has been able to offset the effects of increases in the cost of this raw material through selling price increases or reductions in product weights. Conversely, declines in the cost of cocoa beans have served as a source of funds to maintain selling price stability, enhance consumer value, respond to competitive activity, develop new products and markets, and offset rising costs of other raw materials and expenses.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. During 1988 and 1989, the market price of cocoa beans and cocoa futures contracts declined as a result of a worldwide excess supply. After wide fluctuations in early 1990, prices stabilized during the latter part of the year. The oversupply situation is expected to continue into 1991. The impact of price fluctuations will not necessarily be consistent with quoted market prices because of the Corporation's forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

Market prices for peanuts rose dramatically in the fourth quarter of 1990 as hot, dry weather in the southeastern United States reduced both crop yield and quality. Adequate domestic supplies are currently available; however, a poor crop in 1991 could cause shortages and further price escalation unless import quotas are raised. Prices are expected to remain at historically high levels pending the 1991 crop harvest.

Effects of Inflation

The Corporation monitors the effects of inflation and takes various steps, including selling price and product weight changes, to minimize its impact on the Corporation's business. The use of LIFO inventory accounting for most inventories matches current costs with current revenues and, in periods of inflation, reduces income taxes and improves cash flow. The capital additions program, through investment in modern plant and equipment, provides for future sales growth and manufacturing efficiencies. These management practices have resulted in inflation having a minimal effect on comparative results of operations and financial condition for the most recent three years.

Capital Structure

The Corporation has two classes of stock outstanding, Common Stock and Class B Common Stock (Class B Stock). The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

The Corporation's Common Stock is listed on the New York Stock Exchange (Exchange), which has a rule generally prohibiting dual classes of common stock. The Exchange's rule is based on a rule of the Securities and Exchange Commission (SEC), which has been vacated by court order, and the Exchange is currently reviewing its rule in light of this action. The Corporation's dual class structure has been grandfathered under both the Exchange's current rule and the SEC's vacated rule.

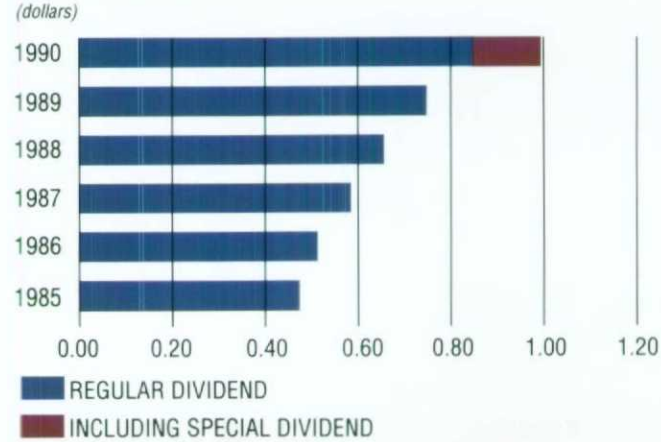
Market Prices and Dividends

Regular cash dividends paid on the Corporation's Common Stock and Class B Stock were $74.5 million in 1990 and $65.6 million in 1989. On September 14, 1990 the Corporation paid a special dividend of $13.3 million. The special dividend was the result of the one-time gain realized on the Corporation's sale of its equity interest in Marabou. The regular annual dividend rate on the Common Stock is $.90 per share, an increase of 15% over the 1989 rate of $.78 per share. The 1990 dividend represents the 16th consecutive year of Common Stock dividend increases.

On February 13, 1991, the Corporation's Board of Directors declared a regular quarterly dividend of $.225 per share of the Common Stock payable on March 15, 1991, to stockholders of record

DIVIDENDS PAID PER SHARE OF COMMON STOCK

(dollars)



February 28, 1991. It is the Corporation's 245th consecutive regular Common Stock dividend. A regular quarterly dividend of $.2025 per share of the Class B Stock was also declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange (NYSE) under the ticker symbol "HSY." Approximately 31.0 million shares of the Corporation's Common Stock were traded during 1990. The closing price of the Common Stock on December 31, 1990 was $37½. The Class B Stock is not publicly traded. There were 30,052 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1990.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1990				
1st Quarter	$.1950	$.1750	$36⅝	$28¼
2nd Quarter	.1950	.1750	38⅛	30¾
3rd Quarter	.2250	.2025	39⅝	32¾
4th Quarter	.2250	.2025	38⅞	33¾
	.8400	.7550		
Special Dividend	.1500	.1350		
	$.9900	$.8900		
1989				
1st Quarter	$.1750	$.1575	$27¼	$24¾
2nd Quarter	.1750	.1575	34	26
3rd Quarter	.1950	.1750	35½	31¼
4th Quarter	.1950	.1750	36⅞	31¼
	$.7400	$.6650		

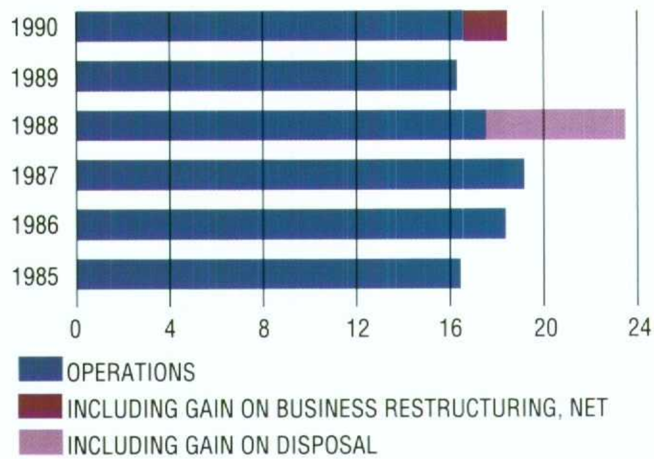
* NYSE-Composite Quotations for Common Stock by calendar quarter

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 16.6% in 1990. Over the most recent six-year period, the return has ranged from 16.1% in 1989 to 19.0% in 1987. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the net gains on the sale of Friendly and business restructuring.

RETURN ON AVERAGE STOCKHOLDERS' EQUITY

(percent)

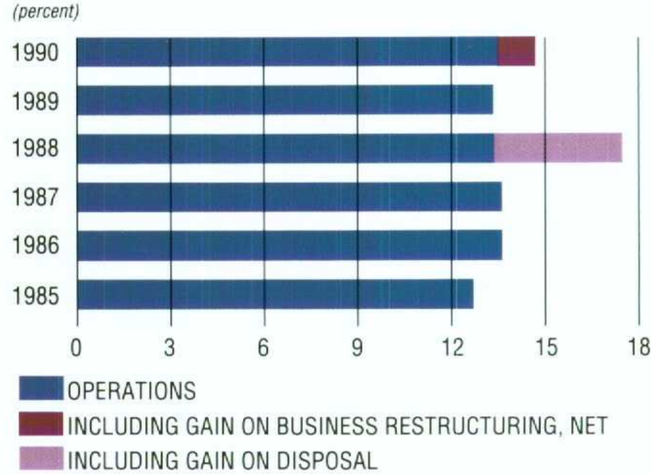


Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 13.4% in 1990. Over the most recent six-year period, the return has ranged from 12.7% in 1985 to 13.5% in 1986. Average invested capital consists of the annual average of beginning and ending balances in long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as the sum of net income, excluding the net gains on the sale of Friendly and business restructuring, and the after-tax effect of interest on long-term debt.

RETURN ON AVERAGE INVESTED CAPITAL

(percent)



CONSOLIDATED STATEMENTS OF *Income*

(in thousands of dollars except per share amounts)

For the years ended December 31,	1990	1989	1988
Net Sales	$2,715,609	$2,420,988	$2,168,048
Costs and Expenses:			
Cost of sales	1,588,360	1,455,612	1,326,458
Selling, marketing and administrative	776,668	655,040	575,515
Total costs and expenses	2,365,028	2,110,652	1,901,973
Gain on Business Restructuring, Net	35,540	—	—
Income from Continuing Operations before Interest and Income Taxes	386,121	310,336	266,075
Interest expense, net	24,603	20,414	29,954
Income from Continuing Operations before Income Taxes	361,518	289,922	236,121
Provision for income taxes	145,636	118,868	91,615
Income from Continuing Operations	215,882	171,054	144,506
Discontinued Operations	—	—	69,443
Net Income	$ 215,882	$ 171,054	$ 213,949
Income per Share:			
Continuing Operations	$ 2.39	$ 1.90	$ 1.60
Discontinued Operations	—	—	.77
Net Income	$ 2.39	$ 1.90	$ 2.37

	1990	1989	1988
Cash Dividends Paid per Share:			
Common Stock—Regular	$ .840	$ .740	$ .660
Common Stock—Special	.150	—	—
Class B Common Stock—Regular	.755	.665	.595
Class B Common Stock—Special	.135	—	—

The notes to consolidated financial statements are an integral part of these statements.

Results of Continuing Operations (Unaudited)

Net Sales

Net sales rose $294.6 million in 1990 and $252.9 million in 1989, an increase of 12% each year. The increases in both years reflected unit volume growth from a combination of business acquisitions, new product introductions and existing brands. The favorable performance was partly enhanced in 1989 by higher selling prices for pasta products, which were required in order to cover escalating durum wheat costs resulting from the severe drought experienced by wheat growers during 1988.

Costs and Expenses

Cost of sales as a percent of net sales declined from 61.2% in 1988 to 60.1% in 1989, and 58.5% in 1990. The reduction in 1990 reflects declines in cocoa bean and durum wheat costs, partially offset by increases in the average cost per pound of sugar, milk and peanuts. The decrease in 1989 was due to a decline in overall raw material costs resulting from lower cocoa bean prices plus manufacturing efficiencies, partially offset by an increase in the average cost per pound of milk, sugar and durum wheat.

Selling, marketing and administrative expenses rose as a percent of net sales from 26.5% in 1988 to 27.1% in 1989, and 28.6% in 1990. Increases in selling and marketing expenses primarily reflect higher expenditures and incremental programs in support of acquired and existing brands, as well as new product introductions. General and administrative expenses were relatively stable as a percent of net sales during the period.

Gain on Business Restructuring, Net

The Corporation's financial results for 1990 include a net pre-tax gain from business restructuring activities totaling $35.5 million. This gain, which increased net income by $20.3 million or $.22 per share, resulted from two events.

On May 25, 1990, the Corporation sold its equity interest in Marabou for $78.0 million. The sale resulted in a gain of $60.5 million and had the effect of increasing net income by $35.3 million or $.39 per share.

In the fourth quarter of 1990, the Corporation recorded a manufacturing restructuring charge of $25.0 million associated with the modernization and relocation of certain manufacturing operations. The charge related to existing production facilities that will be impacted by the chocolate processing facility under construction in Hershey, Pa., and other manufacturing strategies associated with the Corporation's confectionery and pasta operations. This charge reduced net income by $15.0 million or $.17 per share.

Interest Expense, Net

Net interest expense was $4.2 million higher in 1990 than 1989, due to increased borrowings associated with the Ronzoni acquisition and investments in working capital. Net interest expense decreased by $9.5 million in 1989 as a result of a reduction in seasonal short-term borrowings and higher capitalized interest resulting from increased capital spending.

Provision for Income Taxes

The Corporation's effective income tax rate on income from continuing operations was 40.3%, 41.0% and 38.8% in 1990, 1989 and 1988, respectively. The principal factor causing differences in the effective income tax rate among the years was changes in the mix of the Corporation's income among various tax jurisdictions.

Income from Continuing Operations

Income from continuing operations increased $44.8 million or 26% in 1990, following a $26.5 million or 18% increase in 1989. Income from continuing operations as a percent of net sales (continuing operations margin) was 7.9% in 1990, 7.1% in 1989 and 6.7% in 1988. The Corporation's continuing operations margin in 1990 was favorably impacted by the Gain on Business Restructuring, Net. After removing this favorable impact, the continuing operations margin was 7.2%.

CONSOLIDATED STATEMENTS OF Cash Flows

(in thousands of dollars)

For the years ended December 31,	1990	1989	1988
Cash Flows Provided from (Used by) Operating Activities			
Income from continuing operations	$ 215,882	$ 171,054	$ 144,506
Adjustments to reconcile income from continuing operations to net cash provided from continuing operations:			
Depreciation and amortization	73,889	65,729	51,897
Deferred income taxes	(8,257)	3,369	4,884
Gain on Business Restructuring, Net	(35,540)	—	—
Changes in assets and liabilities, net of effects from business acquisitions:			
Accounts receivable—trade	(21,028)	44,846	(18,207)
Inventories	(61,447)	(1,082)	6,250
Accounts payable	23,300	(26,546)	7,514
Other assets and liabilities	(5,398)	3,080	1,953
Other, net	30,350	5,195	1,899
Net cash provided from continuing operations	211,751	265,645	200,696
Net cash provided from discontinued operations	—	—	6,187
Net Cash Provided from Operating Activities	211,751	265,645	206,883
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	(179,408)	(162,032)	(101,682)
Business acquisitions	(78,153)	—	(284,540)
Sale of Friendly Ice Cream Corporation	—	—	375,000
Tax effect of gain on sale of Friendly Ice Cream Corporation	—	—	(30,821)
Sale of equity interest	78,041	—	—
Tax effect of gain on sale of equity interest	(25,245)	—	—
Other, net	(4,501)	(2,316)	8,882
Net Cash (Used by) Investing Activities	(209,266)	(164,348)	(33,161)
Cash Flows Provided from (Used by) Financing Activities			
Net increase (decrease) in short-term debt	1,131	—	(25,463)
Long-term borrowings	77,117	1,794	713
Repayment of long-term debt	(18,567)	(55,105)	(4,769)
Repayment of assumed debt	(250)	—	(23,371)
Cash dividends paid	(87,757)	(65,592)	(58,530)
Net Cash (Used by) Financing Activities	(28,326)	(118,903)	(111,420)
Increase (Decrease) in Cash and Cash Equivalents	(25,841)	(17,606)	62,302
Cash and Cash Equivalents as of January 1	52,467	70,073	7,771
Cash and Cash Equivalents as of December 31	$ 26,626	$ 52,467	$ 70,073

Interest Paid (Continuing Operations)	$ 26,085	$ 21,329	$ 29,555
Income Taxes Paid (Continuing Operations)	$147,099	$ 106,218	$ 84,902

The notes to consolidated financial statements are an integral part of these statements.

Cash Flows (Unaudited)

Summary

Over the past three years, cash provided from operating activities and the sales of Friendly and the Corporation's equity interest in Marabou exceeded cash requirements for business acquisitions, capital additions and dividend payments by $63.6 million. Total debt, including debt assumed in business acquisitions, decreased during the period by $12.8 million, as repayments of debt exceeded new long-term borrowings and assumed debt. Cash and cash equivalents increased by $18.9 million during the period.

The Corporation's cash provided from continuing operations during the year is affected by seasonal sales patterns. Chocolate and confectionery seasonal and holiday related sales are typically highest during the third and fourth quarters of the year, representing the principal seasonal effect. Generally, the Corporation's seasonal working capital needs peak during the summer months and are met by issuing commercial paper. During 1990, domestic working capital needs were met by cash generated from operations, domestic commercial paper issuances and proceeds from the sale of the Corporation's equity interest in Marabou.

Operating Activities

Operating activities include both continuing and discontinued operations. Depreciation and amortization have increased significantly as a result of continuous investment in capital additions and business acquisitions. Cash requirements for accounts receivable and inventories have tended to fluctuate during the three-year period based on sales during December and inventory management practices. During the past three years, cash provided from continuing operations totaled $678.1 million.

Cash provided from discontinued operations reflects income from discontinued operations, adjusted for changes in net assets of discontinued operations.

Investing Activities

Investing activities include capital additions, business acquisitions, the sale of the Corporation's equity interest in Marabou in 1990 and the sale of Friendly in 1988. Capital additions during the past three years included manufacturing equipment, expansion of existing facilities and construction of new facilities. Cash used for business acquisitions reflects current assets, property, plant and equipment, and intangibles acquired, net of liabilities assumed. Businesses acquired during the past three years included Ronzoni in 1990 and Peter Paul/Cadbury in 1988. The gross proceeds from the sale of Friendly and from the sale of the Corporation's equity interest in Marabou were reduced by income taxes on the gains on each sale.

Financing Activities

Financing activities include debt borrowings and repayments, and the payment of dividends. In each of the past three years, domestic short-term borrowings in the form of commercial paper or short-term commercial bank borrowings were required to fund seasonal working capital requirements. In 1990, the after-tax proceeds from the sale of the Corporation's equity interest in Marabou of $52.8 million were used to reduce working capital-related borrowings, partially repay debt resulting from the acquisition of Ronzoni and pay a one-time special dividend. The special dividend of $13.3 million was paid in September 1990.

In February 1991, the Corporation issued $100.0 million of 8.8% Debentures due 2021 (Debentures) under its Form S-3 Registration Statement, which was declared effective in June 1990. A portion of the proceeds from issuance of the Debentures is to be used to repay $76.7 million of domestic commercial paper borrowings outstanding as of December 31, 1990. Accordingly, these commercial paper borrowings were classified as long-term debt.

In 1989, $50.0 million of notes were repaid as they matured. In 1988, the cash proceeds from the sale of Friendly were used to repay short-term borrowings required to finance the Peter Paul/Cadbury acquisition, debt assumed as part of the acquisition and short-term seasonal borrowings.

Regular cash dividends paid increased 14% in 1990 over 1989, and 12% in 1989 over 1988.

CONSOLIDATED Balance Sheets

(in thousands of dollars)

December 31,	1990	1989
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26,626	$ 52,467
Accounts receivable — trade	142,971	121,943
Inventories	379,108	309,837
Prepaid expenses and other	113,080	83,322
Total current assets	661,785	567,569
Property, Plant and Equipment, Net	952,094	829,905
Intangibles Resulting from Business Acquisitions	417,645	373,396
Other Assets	47,304	43,231
	$2,078,828	$1,814,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 127,572	$ 102,240
Accrued liabilities	170,179	142,856
Accrued income taxes	19,126	22,094
Short-term debt and current portion of long-term debt	24,356	18,558
Total current liabilities	341,233	285,748
Long-term Debt	273,442	216,108
Other Long-term Liabilities	66,159	53,667
Deferred Income Taxes	154,457	141,528
Total liabilities	835,291	697,051
Stockholders' Equity:		
Common Stock, outstanding shares: 74,909,932 in 1990 and 74,907,032 in 1989	74,910	74,907
Class B Common Stock, outstanding shares: 15,276,404 in 1990 and 15,279,304 in 1989	15,276	15,279
Additional paid-in capital	49,249	50,212
Cumulative foreign currency translation adjustments	26,195	26,870
Retained earnings	1,077,907	949,782
Total stockholders' equity	1,243,537	1,117,050
	$2,078,828	$1,814,101

The notes to consolidated financial statements are an integral part of these balance sheets.

Financial Condition (Unaudited)

Assets

Total assets increased $264.7 million or 15% as of December 31, 1990, primarily due to capital additions, the Ronzoni acquisition and an increase in inventories, partially offset by depreciation.

Current assets increased $94.2 million as of December 31, 1990, reflecting higher inventories and trade accounts receivable. The increase in inventories was primarily the result of additional purchases of raw materials, particularly cocoa beans, to take advantage of lower commodity prices. The increase in trade accounts receivable reflected higher sales in December 1990 compared with December 1989.

The $122.2 million net increase in property, plant and equipment included acquired Ronzoni assets of $27.2 million. Capital additions totaled $179.4 million in 1990, while depreciation expense amounted to $61.7 million.

The increase in intangibles resulting from business acquisitions as of December 31, 1990, principally reflected the Ronzoni acquisition, offset by amortization of intangibles.

The increase in other assets as of December 31, 1990, related to the repurchase of the Corporation's stock to fund future employee benefit obligations, partially offset by a decrease in investments resulting from the sale of the Corporation's equity interest in Marabou.

Liabilities

Total liabilities increased $138.2 million or 20% as of December 31, 1990, primarily due to increases in long-term debt and accrued liabilities.

The long-term debt increase reflected the classification of $76.7 million of domestic commercial paper outstanding as of December 31, 1990 as long-term debt. In February 1991, the Corporation issued $100.0 million of 8.8% Debentures due 2021. A portion of the proceeds from issuance of the Debentures is to be used to repay the commercial paper.

Accrued liabilities increased $27.3 million as of December 31, 1990, due in part to increases in accrued consumer and trade promotion expenses.

The deferred income tax liability as of December 31, 1990 and 1989 has been provided based upon statutory corporate income tax rates in effect at the time of the underlying transactions. The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS No. 96). Among other changes, FAS No. 96 provides for recording deferred income taxes at tax rates in effect when temporary differences are expected to reverse, and adjustment of deferred income tax balances when statutory corporate income tax rates are increased or reduced. Upon adoption, the Corporation has the option to record the entire adjustment in the year of adoption or retroactively restate prior years.

Adoption of FAS No. 96 is currently required no later than 1992, although earlier implementation is permitted. The FASB has announced its intent to issue an exposure draft in 1991 that would modify certain provisions of FAS No. 96, which may include a change to the required adoption date. The Corporation has not decided in which year it will adopt FAS No. 96, nor has it decided which option it will utilize. However, management believes that based on the current Federal statutory corporate income tax rate, either method, when adopted, will have a favorable impact on net income.

The FASB has also issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (FAS No. 106). FAS No. 106 requires that the expected cost of postretirement benefits be accrued during the years that employees render service. Presently, the Corporation expenses these benefits as paid. The Corporation is required to adopt FAS No. 106 no later than 1993, although earlier implementation is permitted, and has the option of doing so prospectively or by means of a cumulative catch-up adjustment.

The Corporation has not decided when it will adopt FAS No. 106 or which option it will utilize. Management has not yet determined the effect that adoption will have on the Corporation's reported financial position and results of operations. However, management expects that the effect of adopting FAS No. 106 will be to increase reported liabilities and expense.

Stockholders' Equity

Total stockholders' equity rose 11% in 1990 and has increased at a compound annual rate of 11% over the past five years.

CONSOLIDATED STATEMENTS OF Stockholders' Equity

(in thousands of dollars)

	Common Stock	Class B Common Stock	Additional Paid-in Capital	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Total Stockholders' Equity
Balance as of January 1, 1988	$74,889	$15,297	$51,285	$ 2,038	$ 688,901	$ 832,410
Net income					213,949	213,949
Dividends—Common Stock and Class B Common Stock					(58,530)	(58,530)
Foreign currency translation adjustments				18,543		18,543
Conversion of Class B Common Stock into Common Stock	18	(18)				—
Incentive plan transactions			(506)			(506)
Balance as of December 31, 1988	74,907	15,279	50,779	20,581	844,320	1,005,866
Net income					171,054	171,054
Dividends—Common Stock and Class B Common Stock					(65,592)	(65,592)
Foreign currency translation adjustments				6,289		6,289
Incentive plan transactions			(567)			(567)
Balance as of December 31, 1989	74,907	15,279	50,212	26,870	949,782	1,117,050
Net income					**215,882**	**215,882**
Dividends—Common Stock and Class B Common Stock					**(87,757)**	**(87,757)**
Foreign currency translation adjustments				**(675)**		**(675)**
Conversion of Class B Common Stock into Common Stock	**3**	**(3)**				—
Incentive plan transactions			**(963)**			**(963)**
Balance as of December 31, 1990	**$74,910**	**$15,276**	**$49,249**	**$26,195**	**$1,077,907**	**$1,243,537**

The notes to consolidated financial statements are an integral part of these statements.

Notes
TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Corporation are discussed below and in Notes 9 through 13.

During 1989, the Financial Accounting Standards Board (FASB) amended the provisions of Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" (FAS No. 95) as they relate to classification of cash flows from hedging activities. As a result of this amendment, cash flows from commodities hedging activities have been classified as operating activities for all years presented. As required by FAS No. 95 prior to this amendment, 1988 hedging activities had previously been classified as investing activities.

Principles of Consolidation
The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions. Investments in affiliated companies are accounted for using the equity method.

Cash Equivalents
All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

Commodities Futures Contracts and Options
In connection with the purchasing of major commodities (principally cocoa and sugar) for anticipated manufacturing requirements, the Corporation enters into commodities futures contracts and options as deemed appropriate to reduce the risk of future price increases. These futures contracts and options are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost.

Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment is computed using the straight-line method over the estimated useful lives.

Intangibles Resulting from Business Acquisitions
Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over their estimated useful lives.

Accumulated amortization of intangible assets resulting from business acquisitions was $37.6 million and $25.7 million as of December 31, 1990 and 1989, respectively.

Foreign Currency Translation
Results of operations for foreign entities are translated using the average exchange rates during the period. For foreign entities operating in non-highly inflationary economies, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Cumulative Foreign Currency Translation Adjustments."

Foreign Exchange Contracts
The Corporation enters into foreign exchange contracts to hedge payable transactions denominated in foreign currencies and to hedge payment of intercompany transactions with foreign subsidiaries. Gains and losses are deferred, and recognized as part of the underlying transaction.

License Agreements
The Corporation has entered into license agreements under which it has access to proprietary technology and manufactures and/or markets and distributes certain products. The Corporation's rights under these agreements are extendable on a long-term basis at the Corporation's option subject to certain conditions, including minimum sales levels. License fees and royalties, payable under the terms of the agreements, are expensed as incurred.

2. ACQUISITIONS

On February 12, 1990, the Corporation purchased all of the outstanding voting securities of Ronzoni Foods Corporation (Ronzoni) from Kraft General Foods, Inc. for $78.2 million, plus the assumption of $3.7 million in debt. The purchase included Ronzoni's dry pasta, pasta sauces and cheese businesses.

On August 25, 1988, the Corporation acquired from Cadbury Schweppes Inc. and Cadbury Schweppes plc (Cadbury) certain assets and liabilities of Cadbury's U.S. confectionery business (Peter Paul/Cadbury) for $284.5 million, plus the assumption of $30.0 million in debt. In addition, the parties entered into trademark and technology license agreements under which the Corporation manufactures and/or markets and distributes Cadbury's confectionery brands in the United States. The Corporation also has the right to manufacture, market and distribute certain brands outside of the United States.

The following table presents the fair value of the tangible and intangible assets acquired and the liabilities assumed in each year presented:

For the years ended December 31,	**1990**	1988
(in thousands of dollars)		
Assets acquired	**$ 91,843**	$356,565
Liabilities assumed, including debt	**(13,690)**	(72,025)
Cash paid	**$ 78,153**	$284,540

The above acquisitions were accounted for as purchases, and accordingly, results subsequent to the dates of acquisition are included in the consolidated financial statements. Had the results of the Ronzoni acquisition been included in consolidated results for each period presented, the effect would not have been material. Had the acquisition of Peter Paul/Cadbury occurred at the beginning of 1988, pro forma consolidated results would have been as follows:

For the year ended December 31,	1988
(in thousands of dollars except per share amounts)	*(unaudited)*
Net sales	$2,311,085
Income from continuing operations	129,689
Net income	199,132
Income from continuing operations per share	1.44
Net income per share	2.21

The pro forma results are based on historical financial information provided by Cadbury, as adjusted to give effect to certain costs and expenses, interest expense and income taxes which would have been incurred by the Corporation if it had owned and operated Peter Paul/Cadbury throughout 1988. These results are not necessarily reflective of the actual results which would have occurred if the acquisition had been completed at the beginning of 1988, nor are they necessarily indicative of future combined financial results.

3. DIVESTITURES

On September 2, 1988, the Corporation sold all of the issued and outstanding capital stock of Friendly Ice Cream Corporation (Friendly), a wholly-owned subsidiary of the Corporation. The total amount received for said securities, a covenant not to compete and a trademark license was $375.0 million. The sale of Friendly resulted in a gain of $53.4 million, net of income taxes of $30.8 million, or $.59 per share. Net sales for Friendly were $393.2 million for the eight months in 1988. Income from discontinued operations was $16.0 million, net of income taxes of $11.2 million, or $.18 per share for the eight months in 1988.

4. GAIN ON BUSINESS RESTRUCTURING, NET

The Corporation's financial results for 1990 include a net pre-tax gain from business restructuring activities totaling $35.5 million. This gain, which increased net income by $20.3 million or $.22 per share, resulted from two events.

On May 25, 1990, the Corporation sold its equity interest in AB Marabou for $78.0 million. The sale resulted in a gain of $60.5 million and had the effect of increasing net income by $35.3 million or $.39 per share.

In the fourth quarter of 1990, the Corporation recorded a manufacturing restructuring charge of $25.0 million associated with the modernization and relocation of certain manufacturing operations. The charge related to existing production facilities that will be impacted by the chocolate processing facility under construction in Hershey, Pa., and other manufacturing strategies associated with the Corporation's confectionery and pasta operations. This charge reduced net income by $15.0 million or $.17 per share.

5. CAPITAL STOCK AND INCOME PER SHARE

As of December 31, 1990, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1990, there was a combined total of 90,186,336 shares of both classes of common stock outstanding. No shares of the Preferred Stock were issued or outstanding.

The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1990, 2,900 shares of Class B Stock were converted into Common Stock. There were no conversions of Class B Stock into Common Stock during 1989. During 1988, 17,582 shares of Class B Stock were converted into Common Stock.

Hershey Trust Company, as Trustee for Milton Hershey School, as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 23,409,509 shares of the Common Stock, and, as Trustee for Milton Hershey School, held 15,153,003 shares of the Class B Stock as of December 31, 1990, and is entitled to cast approximately 77% of the total votes of both classes of the Corporation's common stock. Hershey Trust Company, as Trustee for Milton Hershey School, must approve the issuance of shares of Common Stock or any other action which would result in Hershey Trust Company, as Trustee for Milton Hershey School, not continuing to have voting control of the Corporation.

Income per share has been computed based on the weighted average number of shares of the Common Stock and the Class B Stock outstanding during the year (90,186,336 for all years presented).

6. INTEREST EXPENSE

Interest expense, net consisted of the following:

For the years ended December 31,	1990	1989	1988
(in thousands of dollars)			
Long-term debt and lease obligations	$24,258	$27,492	$27,288
Short-term debt	7,936	2,610	8,093
Capitalized interest	(5,875)	(6,594)	(3,318)
	26,319	23,508	32,063
Interest income	(1,716)	(3,094)	(2,109)
Interest expense, net	$24,603	$20,414	$29,954

7. SHORT-TERM DEBT

The Corporation maintained domestic lines of credit arrangements with commercial banks, under which it could borrow up to $150 million as of December 31, 1990 and $100 million as of December 31, 1989 at the lending banks' prime commercial interest rates or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the banks or the Corporation. As of December 31, 1990, the Corporation had outstanding commercial paper borrowings of $76.7 million against these lines of credit and $1.1 million of short-term foreign bank loans. As described in Note 8, the commercial paper borrowings were classified as long-term debt. There were no borrowings under these lines of credit or outstanding commercial paper borrowings as of December 31, 1989.

Lines of credit were supported by commitment fee arrangements. The fees were generally ⅛% per annum of the commitment. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which are included in accounts payable, were $40.5 million and $19.1 million as of December 31, 1990 and 1989, respectively.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

December 31,	1990	1989
(in thousands of dollars)		
Medium-term Notes, 8.45% to 9.92%, due 1990–1998	$ 88,800	$100,000
Commercial Paper Borrowings	76,654	—
9.5% Sinking Fund Debentures due 2009	52,500	55,500
9.125% Sinking Fund Debentures due 2016	50,000	50,000
Other obligations, net of unamortized debt discount	28,713	29,166
	296,667	234,666
Less—current portion	23,225	18,558
Total long-term debt	$273,442	$216,108

In February 1991, the Corporation issued $100.0 million of 8.8% Debentures due 2021 (Debentures) under its Form S-3 Registration Statement, which was declared effective in June 1990. A portion of the proceeds from issuance of the Debentures is to be used to repay $76.7 million of domestic commercial paper borrowings outstanding as of December 31, 1990. Accordingly, these commercial paper borrowings were classified as long-term debt.

Aggregate annual maturities and sinking fund requirements during the next five years, net of repurchased debentures, are: 1991, $23.2 million; 1992, $25.8 million; 1993, $8.3 million; 1994, $15.3 million; and 1995, $8.8 million.

9. INCOME TAXES

The provision for income taxes is based on income from continuing operations before income taxes as reported in the consolidated statements of income. Income taxes relating to discontinued operations are included in "Discontinued Operations" in the consolidated statements of income. Tax credits are recognized as a reduction in the provision using the flow-through method.

Deferred income taxes are provided to reflect timing differences between reported results of operations for financial statement and income tax purposes. Timing differences relate primarily to accelerated depreciation, coupon redemptions, employee benefit plan contributions, commodities futures contracts and, in 1990, the manufacturing restructuring charge. The provision for income taxes on income from continuing operations was as follows:

For the years ended December 31,	**1990**	1989	1988
(in thousands of dollars)			
Current	**$153,893**	$115,499	$86,731
Deferred	**(8,257)**	3,369	4,884
Provision for income taxes	**$145,636**	$118,868	$91,615

The following table reconciles the Federal statutory income tax rate with the Corporation's effective income tax rate:

For the years ended December 31,	**1990**	1989	1988
Federal statutory tax rate	**34.0%**	34.0%	34.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	**4.4**	4.7	4.5
Nondeductible acquisition costs	**1.0**	1.1	.9
Other, net	**.9**	1.2	(.6)
Effective income tax rate	**40.3%**	41.0%	38.8%

The FASB has issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS No. 96). Currently, FAS No. 96 accounting and disclosure rules must be adopted no later than 1992, although earlier implementation is permitted. The FASB has announced its intent to issue an exposure draft in 1991 that would modify certain provisions of FAS No. 96, which may include a change to the required adoption date. The Corporation has not implemented the new standard. When the Corporation does adopt the new accounting rules, it may record the entire catch-up effect in the year of adoption or it may retroactively restate prior financial statements. The Corporation has not decided which option it will utilize nor in which year it will implement the change. However, management believes that based on the current Federal statutory corporate income tax rate, either method, when adopted, will have a favorable impact on net income.

10. RETIREMENT PLANS AND OTHER BENEFITS

The Corporation and its subsidiaries sponsor a number of defined benefit retirement plans covering substantially all employees. Plans covering most domestic salaried and hourly employees were amended in 1989 to provide retirement benefits based on individual account balances which are increased annually by pay-related and interest credits. Plans covering salaried Canadian employees provide retirement benefits based on career average or final pay compensation as defined within the provisions of the individual plans. Other plans covering salaried and hourly employees generally provide benefits based on final average pay or years of service. The Corporation also participates in several multiemployer retirement plans which provide defined benefits to employees covered under certain collective bargaining agreements.

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities.

Pension expense included the following components:

For the years ended December 31,	1990	1989	1988
(in thousands of dollars)			
Service cost	$ 19,369	$ 12,741	$ 10,260
Interest cost on projected benefit obligation	18,392	19,262	17,659
Investment loss (return) on plan assets	2,427	(39,125)	(27,332)
Net amortization and deferral	(27,420)	16,707	7,132
Corporate sponsored plans	12,768	9,585	7,719
Multiemployer plans	1,603	1,252	1,122
Other	801	919	366
Total pension expense	$ 15,172	$ 11,756	$ 9,207

The funded status and amounts recognized in the consolidated balance sheets for the retirement plans were as follows:

	December 31, 1990		December 31, 1989	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
(in thousands of dollars)				
Actuarial present value of:				
Vested benefit obligation	$222,127	$ 14,121	$201,581	$ 14,168
Accumulated benefit obligation	$235,368	$ 18,976	$214,435	$ 16,164
Actuarial present value of projected benefit obligation	$263,216	$ 20,396	$248,977	$ 22,599
Plan assets at fair value	257,111	2,384	268,244	2,906
Plan assets greater than (less than) projected benefit obligation	(6,105)	(18,012)	19,267	(19,693)
Net (gain) loss unrecognized at date of transition	(2,058)	3,975	(2,274)	4,445
Prior service cost not yet recognized in earnings	9,024	136	(1,331)	17
Unrecognized net (gain) loss from past experience different than that assumed	9,705	3,562	(2,807)	6,360
Minimum liability adjustment	—	(5,928)	—	(4,091)
Prepaid pension expense (pension liability)	$ 10,566	$(16,267)	$ 12,855	$(12,962)

The projected benefit obligation for the plans was determined principally using a discount rate of 7.50% in 1990 and 7.25% in 1989. For both years the assumed long-term compensation increase rate was primarily 6% and the assumed long-term rate of return on plan assets was 9.5%.

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Corporation's domestic employees become eligible for these benefits at normal retirement age. Retiree health care and life insurance premiums of $3.6 million, $2.9 million, and $2.4 million were expensed as paid during 1990, 1989 and 1988, respectively.

The FASB has issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (FAS No. 106). FAS No. 106 requires that the expected cost of postretirement benefits be accrued during the years that employees render service. Presently, the Corporation expenses these benefits as paid. The Corporation is required to adopt FAS No. 106 no later than 1993, although earlier implementation is permitted, and has the option of doing so either prospectively or by means of a cumulative catch-up adjustment.

The Corporation has not decided when it will adopt FAS No. 106 or which option it will utilize. Management has not yet determined the effect that adoption will have on the Corporation's reported financial position and results of operations. However, management expects that the effect of adopting FAS No. 106 will be to increase reported liabilities and expense.

11. INCENTIVE PLAN

The long-term portion of the 1987 Key Employee Incentive Plan (Plan) provides for grants or awards to senior executives and key employees of one or more of the following: performance stock units, nonqualified stock options (stock options), stock appreciation rights and restricted stock units.

As of December 31, 1990, 184,450 contingent performance stock units and restricted stock units had been granted for potential future distribution, primarily related to three-year cycles ending December 31, 1990, 1991 and 1992. The Plan provides for the deferral of performance stock unit awards by participants. Deferred performance stock units and accumulated dividend amounts totaled 231,544 shares as of December 31, 1990.

Stock options are granted at exercise prices of not less than 100% of the fair market value of a share of Common Stock at the time the option is granted and are exercisable for periods no longer than ten years from the date of grant. Each option may be used to purchase one share of Common Stock. No compensation expense is recognized under the stock options portion of the Plan.

The following table provides information regarding stock options:

	Shares Under Option	
	Number of Shares	Option Price per Share
Outstanding—January 1, 1988	47,150	$28
Granted	361,550	$23¾ to 25⅜
Exercised	—	
Cancelled	(34,250)	$25⅜ to 28
Outstanding—December 31, 1988	374,450	$23¾ to 28
Granted	55,000	$26 to 26⅜
Exercised	(3,250)	$25⅜ to 28
Cancelled	(10,500)	$25⅜ to 28
Outstanding—December 31, 1989	415,700	$23¾ to 28
Granted	**502,700**	$35⅜
Exercised	**(77,840)**	$25⅜ to 28
Cancelled	**(5,600)**	$35⅜
Outstanding—December 31, 1990	**834,960**	$23¾ to 35⅜

No stock appreciation rights had been granted or awarded as of December 31, 1990.

12. SUPPLEMENTAL INCOME STATEMENT INFORMATION

Supplemental income statement information is provided in the table below. These costs are expensed in the year incurred.

For the years ended December 31,	**1990**	1989	1988
(in thousands of dollars)			
Promotion	**$315,242**	$256,237	$230,187
Advertising	**146,297**	121,182	99,082
Maintenance and repairs	**66,203**	58,842	54,377
Depreciation expense	**61,725**	54,543	43,721
Rent expense	**20,758**	20,033	17,618
Research and development	**19,152**	16,094	15,695

Rent expense represents the cost of all operating leases, principally pertaining to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under noncancelable operating leases with a remaining term in excess of one year as of December 31, 1990, were: 1991, $8.7 million; 1992, $8.1 million; 1993, $7.3 million; 1994, $10.2 million; 1995, $10.0 million; 1996 and beyond, $130.5 million.

Amounts for taxes other than payroll and income taxes, amortization of intangibles resulting from business acquisitions, and royalties are less than 1% of net sales.

13. SUPPLEMENTAL BALANCE SHEET INFORMATION

Accounts Receivable — Trade

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, are net of allowances for doubtful accounts of $9.6 million and $7.7 million as of December 31, 1990 and 1989, respectively.

Inventories

The majority of the Corporation's inventories are valued under the last-in, first-out (LIFO) method. The remaining inventories are stated at the lower of first-in, first-out (FIFO) cost or market. All inventories are stated at amounts that do not exceed realizable values. LIFO cost of inventories valued using the LIFO method was $290.0 million as of December 31, 1990 and $239.4 million as of December 31, 1989. Total inventories were as follows:

December 31,	**1990**	1989
(in thousands of dollars)		
Raw materials	**$200,030**	$139,854
Goods in process	**35,020**	28,707
Finished goods	**199,724**	203,136
Inventories at FIFO	**434,774**	371,697
Adjustment to LIFO	**(55,666)**	(61,860)
Total inventories	**$379,108**	$309,837

Property, Plant and Equipment

Major classes of property, plant and equipment were as follows:

December 31,	**1990**	1989
(in thousands of dollars)		
Land	**$ 31,117**	$ 20,022
Buildings	**280,897**	223,600
Machinery and equipment	**1,011,629**	906,705
	1,323,643	1,150,327
Accumulated depreciation	**371,549**	320,422
Property, plant and equipment, net	**$ 952,094**	$ 829,905

Property, plant and equipment balances include construction in progress of $150.0 million and $95.8 million as of December 31, 1990 and 1989, respectively.

Accrued Liabilities

Accrued liabilities were as follows:

December 31,	**1990**	1989
(in thousands of dollars)		
Payroll and other compensation costs	**$ 48,273**	$ 45,102
Advertising and promotional expenses	**58,758**	47,469
Other	**63,148**	50,285
Total accrued liabilities	**$170,179**	$142,856

14. SEGMENT INFORMATION

The Corporation operates in one line of business—consumer foods, involving the manufacture, distribution and sale of chocolate, confectionery, pasta and other food products.

The table below presents information about the Corporation's domestic and foreign operations. The foreign amounts presented represent primarily Canadian operations. Transfers of product between geographic areas were not significant.

For the years ended December 31,	1990	1989	1988
(in thousands of dollars)			
Net sales:			
Domestic	$2,508,542	$2,235,728	$1,968,647
Foreign	207,067	185,260	199,401
Total	$2,715,609	$2,420,988	$2,168,048
Income from continuing operations before interest and income taxes:			
Domestic	$ 344,303	$ 306,705	$ 256,657
Foreign	6,278	3,631	9,418
Gain on Business Restructuring, Net	35,540	—	—
Total	$ 386,121	$ 310,336	$ 266,075
Identifiable assets as of December 31:			
Domestic	$1,820,434	$1,561,187	$1,506,037
Foreign	258,394	252,914	258,628
Total	$2,078,828	$1,814,101	$1,764,665

15. QUARTERLY DATA (Unaudited)

Summary quarterly results were as follows:

(in thousands of dollars except per share amounts)

Year 1990	First	Second	Third	Fourth	Year
Net sales	$681,244	$535,861	$735,438	$763,066	$2,715,609
Gross profit	281,924	221,699	302,004	321,622	1,127,249
Net income	47,090	65,844[b]	56,557	46,391[b]	215,882[b]
Net income per share [a]	.52	.73[c]	.63	.51[c]	2.39[c]

Year 1989	First	Second	Third	Fourth	Year
Net sales	$572,245	$485,473	$682,375	$680,895	$2,420,988
Gross profit	233,620	188,378	262,144	281,234	965,376
Net income	39,689	25,080	52,195	54,090	171,054
Net income per share[a]	.44	.28	.58	.60	1.90

[a] The weighted average number of shares outstanding was 90,186,336 for all periods presented.

[b] Net income for the second quarter, fourth quarter and year 1990, include the after-tax impact of the Gain on Business Restructuring, Net, of $35.3 million, $(15.0) million, and $20.3 million, respectively. Excluding the impact of this gain, net income for the second quarter, fourth quarter and year 1990 would have been $30.5 million, $61.4 million, and $195.6 million, respectively.

[c] Net income per share for the second quarter, fourth quarter and year 1990, include the after-tax impact of the Gain on Business Restructuring, Net, of $.39, $(.17), and $.22, respectively. Excluding the impact of this gain, net income per share for the second quarter, fourth quarter and year 1990 would have been $.34, $.68, and $2.17, respectively.

RESPONSIBILITY FOR *Financial Statements*

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been audited by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 30, 1990. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their examination was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance that the financial statements are free of material misstatement.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

REPORT OF *Independent Public Accountants*

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1990, appearing on pages 22, 24, 26, 28 and 29 through 37. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

New York, N.Y.
February 12, 1991

Directors and Senior Management

Board of Directors

Richard A. Zimmerman
Chairman of the Board and Chief Executive Officer

Howard O. Beaver, Jr.
Retired Chairman of the Board
Carpenter Technology Corporation
Reading, Pa.

John F. Burlingame
Retired Vice Chairman of the Board and Executive Officer
General Electric Company
Fairfield, Conn.

Thomas C. Graham
Vice Chairman, Steel and Diversified Group
USX Corporation
Pittsburgh, Pa.

Kenneth V. Hatt
Retired Chairman of the Board
Hershey Trust Company
Hershey, Pa.

John C. Jamison
President and Chief Executive Officer-elect
The Mariners Museum
Newport News, Va.

Dr. Sybil C. Mobley
Dean, School of Business and Industry
Florida Agricultural and Mechanical University
Tallahassee, Fla.

Francine I. Neff
Vice President and Director
NETS Inc.
a privately-held investment company
Albuquerque, N.M.

John M. Pietruski
Retired Chairman and Chief Executive Officer
Sterling Drug Inc.
New York, N.Y.

H. Robert Sharbaugh
Retired Chairman and Chief Executive Officer
Sun Company, Inc.
Radnor, Pa.

Joseph P. Viviano
President
Hershey Chocolate U.S.A.

Kenneth L. Wolfe
President and Chief Operating Officer

Audit Committee

Dr. Sybil C. Mobley, *Chair*
John F. Burlingame
Thomas C. Graham
John M. Pietruski
H. Robert Sharbaugh

Committee on Directors

John C. Jamison, *Chair*
Kenneth V. Hatt
Dr. Sybil C. Mobley
Richard A. Zimmerman

Compensation and Executive Organization Committee

John F. Burlingame, *Chair*
Howard O. Beaver, Jr.
John C. Jamison
Francine I. Neff
John M. Pietruski

Employee Benefit Committee

Howard O. Beaver, Jr., *Chair*
Thomas C. Graham
Kenneth V. Hatt
Francine I. Neff
H. Robert Sharbaugh

Executive Committee

Richard A. Zimmerman, *Chair*
Joseph P. Viviano
Kenneth L. Wolfe

Corporate Officers

Richard A. Zimmerman
Chairman of the Board and Chief Executive Officer

Kenneth L. Wolfe
President and Chief Operating Officer

William Lehr, Jr.
Senior Vice President and Secretary

Michael F. Pasquale
Senior Vice President and Chief Financial Officer

Kenneth L. Bowers
Vice President
Corporate Communications

Frank Cerminara
Vice President
Corporate Development and Commodities

Charles E. Duroni
Vice President and General Counsel

Thomas C. Fitzgerald
Vice President and Treasurer

Kenneth B. Kwiat
Vice President
Quality

Sharon A. Lambly
Vice President
Human Resources

John B. Stiles
Vice President and Corporate Controller

Division Presidents

William F. Christ
President
Hershey International

Richard W. Meyers
President
Hershey Canada Inc.

C. Mickey Skinner
President
Hershey Pasta Group

Joseph P. Viviano
President
Hershey Chocolate U.S.A.

SIX-YEAR CONSOLIDATED
Financial Summary

(all dollar and share amounts in thousands except market price and per share statistics)	1990	1989	1988	1987	1986	1985
Summary of Operations[a]						
Net Sales	$ 2,715,609	2,420,988	2,168,048	1,863,816	1,635,486	1,526,584
Cost of Sales	$ 1,588,360	1,455,612	1,326,458	1,149,663	1,032,061	982,370
Selling, Marketing and Administrative	$ 776,668	655,040	575,515	468,062	387,227	345,299
Gain on Business Restructuring, Net	$ 35,540	—	—	—	—	—
Interest Expense, Net	$ 24,603	20,414	29,954	22,413	8,061	10,240
Income Taxes	$ 145,636	118,868	91,615	99,604	100,931	91,910
Income from Continuing Operations	$ 215,882	171,054	144,506	124,074	107,206	96,765
Discontinued Operations	$ —	—	69,443	24,097	25,558	15,462
Net Income	$ 215,882	171,054	213,949	148,171	132,764	112,227
Income Per Share from Continuing Operations[b]	$ 2.39[c]	1.90	1.60	1.38	1.15	1.03
Net Income Per Share[b]	$ 2.39[c]	1.90	2.37	1.64	1.42	1.19
Weighted Average Shares Outstanding[b]	90,186	90,186	90,186	90,186	93,508	94,011
Dividends Paid on Common Stock	$ 74,161[d]	55,431	49,433	43,436	40,930	37,386
Per Share[b]	$ .990[d]	.740	.660	.580	.520	.475
Dividends Paid on Class B Common Stock	$ 13,596[d]	10,161	9,097	8,031	7,216	6,556
Per Share[b]	$ .890[d]	.665	.595	.525	.472	.428
Income from Continuing Operations before Interest and Income Taxes as a Percent of Net Sales	12.9%[e]	12.8%	12.3%	13.2%	13.2%	13.0%
Income from Continuing Operations as a Percent of Net Sales	7.2%[e]	7.1%	6.7%	6.7%	6.6%	6.3%
Depreciation	$ 61,725	54,543	43,721	35,397	31,254	28,348
Advertising	$ 146,297	121,182	99,082	97,033	83,600	77,135
Promotion	$ 315,242	256,237	230,187	171,162	122,508	105,401
Payroll	$ 372,780	340,129	298,483	263,529	238,742	222,267
Year-end Position and Statistics[a]						
Working Capital	$ 320,552	281,821	273,716	190,069[f]	174,147	225,345
Capital Additions	$ 179,408	162,032	101,682	68,504	74,452	61,361
Total Assets	$ 2,078,828	1,814,101	1,764,665	1,544,354	1,262,332	1,116,074
Long-term Debt	$ 273,442	216,108	233,025	280,900	185,676	86,986
Stockholders' Equity	$ 1,243,537	1,117,050	1,005,866	832,410	727,941	727,899
Current Ratio	1.9:1	2.0:1	1.8:1	1.7:1[f]	2.0:1	2.4:1
Capitalization Ratio	19%	17%	22%	27%	21%	12%
Net Book Value Per Share[b]	$ 13.79	12.39	11.15	9.23	8.07	7.74
Operating Return on Average Stockholders' Equity	16.6%	16.1%	17.5%	19.0%	18.2%	16.2%
Operating Return on Average Invested Capital	13.4%	13.2%	13.3%	13.5%	13.5%	12.7%
Full-time Employees at Year-end	12,700	11,800	12,100	10,540	10,210	10,380
Stockholders' Data						
Outstanding Shares of Common Stock and Class B Common Stock at Year-end[b]	90,186	90,186	90,186	90,186	90,186	94,011
Market Price of Common Stock at Year-end[b]	$ 37½	35⅞	26	24½	24⅝	17⅛
Range During Year[b]	$39⅝–28¼	36⅞–24¾	28⅝–21⅞	37¾–20¾	30–15½	18⅜–11⅝
Year-end Common Stock and Class B Common Stock Holders	30,052	29,998	30,430	29,151	23,502	17,529
Approximate Annual Composite Trading Volume	31,024	41,220	46,693	48,145	22,838	8,566

Notes:

[a] All amounts for years prior to 1988 have been restated for discontinued operations, where applicable. Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding the gain on the sale of Friendly Ice Cream Corporation and the Gain on Business Restructuring, Net.

[b] All share and per share amounts, excluding composite trading volume, for years prior to 1987 have been adjusted for the three-for-one stock split effective September 15, 1986.

[c] Income Per Share from Continuing Operations and Net Income Per Share include a $.22 per share Gain on Business Restructuring, Net. Excluding the impact of this gain, Income Per Share from Continuing Operations and Net Income Per Share would have been $2.17.

[d] Amounts include a special dividend of $11.2 million or $.15 per share on Common Stock and $2.1 million or $.135 per share on Class B Common Stock.

[e] Operating margin before interest and income taxes, and operating margin, exclude the Gain on Business Restructuring, Net. Including the gain, operating margin before interest and income taxes and operating margin were 14.2% and 7.9%, respectively.

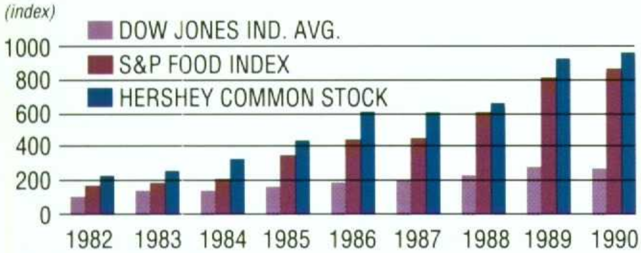
[f] Amounts exclude net assets of discontinued operations.

Investor Information

Stockholders

As of December 31, 1990, Hershey Foods Corporation had outstanding 74,909,932 shares of Common Stock and 15,276,404 shares of Class B Common Stock owned by 30,052 registered stockholders of record.

HERSHEY FOODS COMMON STOCK PERFORMANCE vs. SELECTED INDICES



Indexed as of year-end 1980

Stock Market Data

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Common Stock is not listed for trading. The stock tables of most financial publications list the Corporation as "Hershey." Options on the Corporation's Common Stock are traded on the American Stock Exchange.

Common Stock Profile

	Common Stock Price			Dividends Paid	
1990	**High**	**Low**	**Close**	**Common**	**Class B**
(calendar quarter)					
1st Qtr.	$36⅝	$28¼	$31¾	$.1950	$.1750
2nd Qtr.	38⅛	30¾	37⅝	.1950	.1750
3rd Qtr.	39⅝	32¾	36⅛	.2250	.2025
Special Dividend				.1500	.1350
4th Qtr.	38⅞	33¾	37½	.2250	.2025

Annual Meeting

The Annual Meeting of Stockholders will be held at 2:00 p.m. on Monday, April 29, 1991, at the Hershey Theatre, East Caracas Avenue (near Cocoa Avenue) in Hershey, Pa. A formal notice of this meeting, together with a proxy statement, will be mailed to stockholders on or about March 8, 1991.

Dividend Policy

Dividends on Hershey Foods Corporation's Common Stock and Class B Common Stock are declared by the Board of Directors and are normally paid in the months of March, June, September and December.

The dividend to be paid on the Common Stock in March 1991 will be the 245th consecutive regular dividend paid by the Corporation. The dividend rate has been increased annually for 16 consecutive years. Historically, the Corporation has targeted approximately one-third of net income as dividends to stockholders.

Dividend Reinvestment Service

The Corporation offers an Automatic Dividend Reinvestment Service whereby Common Stock holders may build their investment by reinvesting dividends without paying brokerage commissions or service fees. Participants also may make voluntary cash payments of up to $20,000 annually, for which there are only nominal brokerage commissions and service fees. Approximately one-third of Hershey Foods Corporation's registered stockholders are enrolled in this Automatic Dividend Reinvestment Service. For more information, contact:

Manufacturers Hanover Trust Co.
Dividend Reinvestment Department
P. O. Box 24850
Church Street Station
New York, NY 10242-4850
Telephone: (212) 613-7147

Form 10-K

Form 10-K, filed annually in March with the Securities and Exchange Commission, is available without charge by contacting:

Office of the Corporate Secretary
Hershey Foods Corporation
P. O. Box 814
Hershey, PA 17033-0814
Telephone: (717) 534-7527

Stockholder Inquiries

Questions relating to stockholder records, change of ownership, change of address and dividend payments should be sent to the Corporation's Transfer Agent, Manufacturers Hanover Trust Co., at the address listed on the inside front cover.

Financial Information

Security analysts, investment managers and stockholders should direct financial information inquiries to the Investor Relations contact listed on the inside front cover.

Hershey Foods Corporation
HERSHEY, PENNSYLVANIA 17033, U.S.A.